

## **AN EVALUATION OF THE SPECIAL ECONOMIC ZONE SCHEME IN INDIA**

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### **Abstract**

A Special Economic Zone (SEZ) is a geographical location in a country which carries special privileges and less regulation when compared to other parts of the same country. Asia's first Export Processing Zone (EPZ) was established by India at Kandla in 1965. With a view to make SEZs as an engine for sustainable economic development, the Government announced the Special Economic Zone policy in April 2000. After that Export Processing Zones are replaced by Special Economic Zones. Up to 9th February 2006 the functioning of SEZs was governed by the provisions of Foreign Trade Policy. To make the SEZ Scheme more attractive, the Parliament passed the SEZ Act 2005 in May 2005. The SEZ Act aims at creating additional economic activity, export promotion, promotion of domestic and foreign direct investment, employment generation, infrastructure development, etc. This article gives a brief description of the performance of SEZs in India after the enactment of Special Economic Zone Act.

**Keywords :** EPZ, SEZ, export, performance, AAGR

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## Introduction

Government of India treats export promotion as a major thrust area and with a view to give a concerted push to India's outbound shipments, a number of export promotion schemes are offered to exporters from time to time. "Trade is not an end in itself, but a means to economic growth and national development" (Kothari, 2007, P.120). Export promotion helps in the generation of foreign exchange along with the stimulation of higher economic activity. The Foreign Trade Policy 2015-20, which was announced on 1st April 2015 aims at boosting both manufacturing and service exports. It also gives much attention for improving the 'ease of doing business' (Department of Commerce, 2016).

Export Processing Zones have become a strong Trade Policy instrument of India for the promotion of exports. India's first EPZ was established at Kandla in the year 1965. It was followed by the establishment of six other Central Government Export Processing Zones at Santacruz, Noida, Falta, Cochin, Chennai, Visakhapatnam and Surat. The EXIM policy 2000 announced a new Scheme called Special Economic Zone Scheme (Aggarwal, Export Processing Zones in India: Analysis of the Export Performance, 2004).

In the year 2000, Government of India replaced the Export Processing Zone Scheme with a new scheme called Special Economic Zone Scheme. This Scheme offers more incentives/benefits to exporters than the earlier EPZ Scheme (Aggarwal, Special Economic Zones: Revisiting the Policy Debate, 2006). According to Mukherjee, Pal, Deb, Ray, & Goyal "Special Economic Zones are industrial enclaves within a country that primarily focus on exports. These enclaves receive certain fiscal and non-fiscal incentives from the Government, which are not generally available elsewhere in a country" (Mukherjee, Pal, Deb, Ray, & Goyal, 2016, P.1). In order to enhance India's competitiveness in the global market the Indian Government has enacted the Special Economic Zone Act in 2005 (Sampat, 2008).

A large number of studies are conducted in India related to Special Economic Zones. Some of the major studies are discussed below:

Aggarwal (2006) in an article titled 'Special Economic Zones: Revisiting the Policy Debate' described the SEZ regime in the Indian context, put forward the arguments for and against SEZs, suggested cautions to be taken for the effective implementation of the SEZ Scheme, etc. This article points out that the focus of the SEZ policy needs to be on making India a preferred destination for manufacturing. The author argues that in the long run competitiveness of the SEZs can be sustained only if an economy wide investment climate is enhanced. The author also argues that SEZs should not be treated as the best policy for long run industrial development.

Lonarkar (2013) conducted a study to evaluate the performance of Special Economic Zones in India during the period 2000 to 2010. This study described the

theoretical background of export promotion strategies in India. This study also tried to check whether the SEZ Scheme had achieved the objectives envisaged by the SEZ Act. One of the major objectives of this study was to evaluate the performance of Central Government Special Economic Zones in terms of exports. This study gave a comparative picture of the export performance by the seven Central Government Special Economic Zones in India. This study also covered the employment generation and infrastructure facilities provided by SEZs in India. The findings of this study showed that the SEZ Scheme was success as an export promotion strategy. But, the SEZ Scheme failed to attain some other major objectives of the SEZ Act, such as generation of female employment and provision for world class infrastructure.

Palanisami (2014) has studied about the performance of Cochin Special Economic Zone, Visakhapatnam Special Economic Zone, Madras Special Economic Zone and other SEZs which are operating under the administrative control of the above three Central Government SEZs. Performance evaluation was conducted for a period of eight years from 2005-06 to 2012-13. In this study, the researcher evaluated the export performance of the SEZs after the enactment of SEZ Act in 2005. This study also investigated the sector-wise exports, Foreign Direct Investment, employment generation and growth of the SEZs under study. On the basis of the findings of this study, the researcher points out that there is no transparency and public accountability in the functioning of SEZs under study. This study reveals that exports have a very strong positive correlation with Balance of Payment, imports and investments.

Jacob (2013) has studied the export competitiveness and labour standards existing in Cochin Special Economic Zone and the interrelation between export competitiveness and labour standards. The evaluation of the competitiveness of different sectors reveals that the most competitive sector is the Gem and Jewellery sector followed by the IT & ITES sector and Electronics sector. With reference to the labour standards prevailing in CSEZ, it is found that unmarried workers with an average educational background and low work experience are present in the CSEZ. The study highlights the discrimination in the payment of remuneration on the basis of gender. The evaluation of the interrelationship between labour standards and competitiveness reveals that the IT & ITES sector is maintaining high competitiveness and better labour standards. This study suggests the policy makers to provide more incentives and concessions to investors to remain competitive, simultaneously ensuring the labour welfare.

Shruthi (2014) has conducted a study to evaluate the role of incentives and concessions in the promotion of Special Economic Zones in Karnataka in the post SEZ Act arena. This study was conducted among 20 operational SEZs in Karnataka state and this study revealed that the introduction of SEZ policy and the incentives and concessions provided to SEZs had a positive impact on the trade performance of

SEZs. This study observed that a major chunk of investment in SEZs in Karnataka came from domestic investors. The share of Foreign Direct Investment in the total investment in SEZs was very low. It was evident from this study that the majority of the Units functioning in SEZs gave more concern for incentives and concessions as a major factor behind the establishment of their unit in SEZs.

Bhuvaneshwari (2014) has conducted an exploratory study to evaluate the problems and prospects of SEZs in India. This study reviewed the origin and development of policy related to SEZs in India, performance of SEZs in India, the impact of SEZs on import and employment generation, etc. It was found that the first and foremost problem faced by SEZs in India was the acquisition of agricultural land from farmers.

Mukherjee, Pal, Deb, Ray, & Goyal (2016) in their book titled 'Special Economic Zones in India: Status, Issues and Potential' made a thorough study of the Special Economic Zone Policy in India.

The current study was conducted to attain the following objectives;

1. To describe the current status of SEZs in India.
2. To evaluate the performance of SEZs in terms of exports.

## **Methodology**

The methodology adopted by the researcher for attaining the research objectives is described below;

### **1. Sources of Data**

This study is based on secondary data. For the attainment of above mentioned objectives, the researcher has collected data from various published sources. The export performance evaluation of SEZs is made on the basis of secondary data collected from the website of SEZ India.

### **2. Tools of Analysis**

Performance evaluation of SEZs in terms of export generation is conducted by using statistical tools like percentage analysis and growth rate analysis. The analyzed data is presented with the help of tables.

Scatter diagram and regression model fitting reveals that there exists a linear relationship between export data of different years. Since the relation is linear the best growth rate is 'Average Annual Growth Rate' (AAGR). The AAGR is defined as the average increase in the value of an individual investment or portfolio over the period of a year. It is calculated by taking the arithmetic mean of the growth rate over two annual periods. That is AAGR is calculated as;

$$\text{AAGR} = \frac{\text{Growth Rate in Period A} + \text{Growth Rate in Period B} + \dots + \text{Growth Rate in Period X}}{\text{Number of Periods}}$$

Where,

$$\text{Growth Rate in a period} = \frac{\text{Current value} - \text{previous value}}{\text{previous value}}$$

### 3. Period of study

This study aims at evaluating the performance of SEZ scheme after the enactment of SEZ Act. So the period of the study covers a period of twelve years from 2005-06 to 2016-17.

#### Special Economic Zone (SEZ) Scheme in India

According to Gupta, "SEZs are specifically delineated duty free enclaves treated as a foreign territory for the purpose of industrial, service and trade operations, with exemption from customs duties and a more liberal regime in respect of other levies, foreign investment and other transactions" (Gupta, 2008, P.508). SEZs are treated as deemed foreign territory within the country and sales to SEZ Units are treated as exports and purchases from SEZs are treated as imports.

The role of Export Processing Zones is widely accepted over the world. India was the pioneer in Asia as regards the implementation of an Export Processing Zone (EPZ) model for export promotion. The Special Economic Zone policy was announced in April 2000 with a view to make SEZs as an engine for sustainable economic development by providing world standard infrastructure facilities along with attractive incentive packages and minimum possible regulations. To make the SEZ Scheme more attractive, efficient and vibrant the Parliament passed the SEZ Act 2005 in May 2005. The SEZ Act aims at creating additional economic activity, export promotion, promotion of domestic and foreign direct investment, employment generation, infrastructure development, etc. In India, SEZs can be established in the private, public or joint sectors. State Governments are also eligible for establishing SEZs.

Prior to the enactment of SEZ Act in 2005, there were 7 Central Government SEZs and 11 State Government/ Private SEZs operating in India. The enactment of SEZ Act attracted more investors to grab the advantage of SEZ Scheme and as a result the number of SEZs has increased steadily. As on 30th September 2017 there were 221 operational SEZs in India with 4765 approved SEZ Units. There were 364 notified SEZs and 423 proposals got formal approval for the establishment of SEZs as on 1st January 2018. Total investments in Indian SEZs have reached Rs.4,48,832.43 crore and SEZs have generated employment for 18,23,451 persons (SEZ India, 2018) .

Tables 1 and 2 shows the state-wise and sector-wise distribution of approved SEZs in India.

**Table 1****State-wise Distribution of Approved SEZs (As on 27<sup>th</sup> July 2016)**

States/Union Territories	Formal Approvals	In-Principle Approval	Notified SEZs	Exporting SEZs (Central Govt. +State Govt./Pvt. SEZs + notified SEZs under the SEZ Act, 2005)
Andhra Pradesh	29	4	24	19
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	1
Delhi	2	0	0	0
Goa	7	0	3	0
Gujarat	31	4	27	18
Haryana	23	3	20	7
Jharkhand	1	0	1	0
Karnataka	61	0	40	25
Kerala	29	0	25	16
Madhya Pradesh	9	1	5	2
Maharashtra	59	9	51	25
Manipur	1	0	1	0
Nagaland	2	0	2	0
Odisha	7	0	5	3
Puducherry	1	1	0	0
Punjab	5	0	2	2
Rajasthan	9	1	8	4
Tamil Nadu	48	4	46	36
Telangana	53	0	44	26
Uttar Pradesh	24	1	19	11
West Bengal	7	2	5	7
Total	412	31	331	204

Source: Website of SEZ India

Tamil Nadu with 36 exporting SEZs occupies the top position regarding the number of exporting SEZs which is followed by Telangana (26) and Karnataka (25). Kerala with 16 exporting SEZs occupies the 7th position.

**Table 2****Sector-wise Distribution of SEZs in India (As on 10<sup>th</sup> May 2016)**

Sectors	Formal Approvals	In-Principle Approvals	Notified SEZs	Exporting SEZs
Agro	4	2	4	1
Airport based multi-product	3	0	0	0
Auto and related	1	1	1	1
Aviation/Aerospace/ Animation & Gaming/Copper	6	1	5	5
Beach & Mineral/ Metals	2	0	2	0
Building prod./Mal./ Transport equipments / Ceramic and glass	2	2	2	2
Electronic product/Industries	2	0	2	2
Engineering	15	1	15	13
Footwear/Leather	6	0	5	3
+Food processing	4	0	3	3
FTWZ	10	4	7	3
Gems and Jewellery	7	3	4	3
Handicrafts & Carpets handicrafts & Carpets	3	0	2	2
IT/ITES/Electronic hardware/Semiconductor/Services	262	0	204	116
Metal/Stain. steel/Alum/Foundry	2	0	2	1
Light engineering/ Metallurgical engineering /Automotive components	1	0	0	0
Multi-product	19	11	17	20
Multi-services	7	1	7	2
Non-conventional energy	2	0	2	2
Petrochemicals & Petro. /Oil and gas	2	1	0	0
Pharmaceuticals/Chemicals	16	2	16	12
Port-based multi-product	5	1	3	2
Power/Alternate energy/Solar	4	1	3	3
Textiles/Apparel/Wool	6	1	6	7
Writing and printing paper mills	1	0	1	0
Granite processing industries and other allied machinery/ Manufacturing	2	0	1	0
Total	417	32	330	205

Source: Website of SEZ India

Table 2 discloses that a major chunk of exporting SEZs (116 SEZs) belongs to IT/ITES/Electronic hardware/Semiconductor/Services sectors. Multi-product (20), Engineering (13), Pharmaceuticals/chemicals (12), etc. are the other major sectors in which SEZs are active.

### Incentives and Facilities Offered to SEZs in India

In order to make the SEZ Scheme attractive to investors, Government offers a number of incentives and concessions to SEZ Units and SEZ developers. The major incentives and concessions available to SEZ Units are as follows:

- ♦ Section 10 A A of Income Tax Act entitles SEZ Units, 100% income tax exemption on export profits for the first five years, 50% of export profits for the next five years and 50% of the ploughed back profit for the subsequent five years.
- ♦ Exemption from customs duty for the import of inputs, capital goods, etc. required for export production.
- ♦ Exemption from the payment of central excise duty for the domestic sourcing of raw materials, capital goods etc.
- ♦ Exemption from the payment of central sales tax.
- ♦ Exemption from the payment of state sales tax.
- ♦ Exemption from the payment of service tax.
- ♦ Eligibility for 100% Foreign Direct Investment, etc.

The following Table (3) illustrates the details of duty forgone by the Customs Department under the SEZ Scheme.

**Table 3**  
**Duty Forgone by the Customs Department under the SEZ Scheme**

Sl. No.	Year	Duty Forgone under SEZ Scheme (In ` Crores)	Total Duty Forgone under Various Export Promotion Schemes (In ` Crores)	Duty Forgone under the SEZ Scheme as a Percentage of Total Duty Forgone
1	2005-06	2,471	40,329	6.13
2	2006-07	1,654	56,133	2.95
3	2007-08	1,848	68,179.23	2.71
4	2008-09	2,324.29	61,173.08	3.8
5	2009-10	3,987.06	52,606.39	7.58
6	2010-11	8,630.16	71,028.48	12.15
7	2011-12	4,559.87	68,678.39	6.64
8	2012-13	4,490.58	72,341.66	6.21
9	2013-14	6,198	82,853.71	7.48
10	2014-15	4,737	91,963.59	5.15

Source: Compiled by the researcher from Report No.14 of 2009-10, Report No.14 of 2013, Report No.8 of 2015-Union Government (Indirect Taxes-Customs) and data collected from the records of Directorate General of Export Promotion



## Export Performance of Special Economic Zones

Table 4 discloses export performance of SEZs from 2005-06 to 2016-17.

**Table 4**

### Export Performance of SEZs in India

I. No.	Year	Exports (In ` Crores)	Percentage Growth Over Previous Year	Share in India's Total Exports (%)
1	2005-2006	22,840	25	5
2	2006-2007	34,615	52	6.05
3	2007-2008	66,638	93	10.16
4	2008-2009	99,689	50	11.86
5	2009-2010	2,20,711	121.40	26.10
6	2010-2011	3,15,868	43.11	27.64
7	2011-2012	3,64,478	15.39	24.86
8	2012-2013	476159	31.00	29.14
9	2013-2014	494077	4.00	26.08
10	2014-15	4,63,770	-6.13	32.10
11	2015-16	4,67,337	0.77	27.35
12	2016-17	5,23,637	12.05	
AAGR			36.78	

*Source: Compiled by the researcher from the Department of Commerce Annual Reports of different years*

During the period 2005-06 to 2016-17, export from Indian SEZs has attained an Average Annual Growth Rate of 36.78%.

### Conclusion

The enactment of SEZ Act make the SEZ Scheme more attractive to entrepreneurs. There has been a tremendous growth in the number of SEZs in India after the enactment of SEZ Act. As on 30th September 2017 there were 221 operational SEZs in India with 4765 approved SEZ Units. Total investments in Indian

SEZs have reached Rs.4,48,832.43 crore and SEZs have generated employment for 18,23,451 persons.

During the year 2003-04 SEZs were contributing only 4.72% of India's total exports. After the enactment of SEZ, there has been a fast growth in the export performance of SEZs. Their exports have grown from Rs.13,854 crore in 2003-04 to Rs.5,23,637 crore in 2016-17 with an AAGR of 36.78%. SEZ's contribution towards India's total exports has reached 32.10% during the year 2014-15. In the current scenario SEZs have become a major export drive of Indian economy.

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